

THE NEW PORTUGUESE COVERED BONDS

The new law has simplified the legal framework applicable to backed bonds issued by Portuguese credit institutions, allowing the issue of bonds which qualify as European covered bonds.

On 6 May 2022, the Portuguese Government enacted [Decree-Law 31/2022](#), which regulates covered bonds issued by Portuguese credit institutions (**New Covered Bonds Law**) and replaces the old covered bonds law, approved by [Decree-Law 59/2006](#), of 20 March 2006. The New Covered Bonds Law implements [Directive \(EU\) 2019/2162](#) and [Directive \(EU\) 2021/2261](#).

Without bringing significant changes, the New Covered Bonds Law simplifies the mortgage-backed bonds and public sector debt backed bonds and establishes a single type of bond independent of the cover asset.

Eligible cover assets include:

- Assets that fulfil the requirements set out in the European Union legislation on prudential requirements applicable to credit institutions for exposures in the form of covered bonds;
- Credits granted to public undertakings which do not meet the above requirements; or
- Other high-quality cover assets which are secured by first ranking security over assets located or registered in the European Economic Area.

Holders of covered bonds and counterparties of derivative contracts hold preferential rights which are secured by cover assets in case of insolvency of the credit institution.

In line with the Directive, bonds should have a cover pool liquidity buffer to cover the maximum cumulative net liquidity outflow over the next 180 days.

Covered bonds programs are subject to prior authorization by the Portuguese Securities Market Commission (*Comissão de Mercado de Valores Mobiliários - CMVM*), which has 90 days to review the application.

To ensure the authorization, the issuer must have:

- An appropriate operational program that defines the issuance procedure;
- Appropriate policies, processes, and methodologies for the protection of investors in the context of the approval of the loans included as cover assets; and
- An administration and monitoring structure to ensure that the cover assets comply with the applicable requirements.

The New Covered Bonds Law will enter into force on 1 July 2022 and is expected to make the financing of credit institutions more flexible and allow the issue of bonds which will qualify as European covered bonds.

CONTACTS

ANTÓNIO DE MACEDO VITORINO
AVITORINO@MACEDOVITORINO.COM

ANDRE VASQUES DIAS
ADIAS@MACEDOVITORINO.COM

JEFFERSON FERNANDES
JFERNANDES@MACEDOVITORINO.COM

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